



STATE OF NORTH DAKOTA
OFFICE OF STATE TAX COMMISSIONER
Cory Fong, Commissioner

OIL EXTRACTION TAX INCENTIVE

TO: North Dakota Oil Producers and Purchasers
FROM: Office of State Tax Commissioner
SUBJECT: Oil Extraction Tax Incentive For Bakken Horizontal Wells
DATE: September 18, 2007

The 60th Legislative Assembly of North Dakota created a twelve-month drilling incentive window to encourage horizontal development of the Bakken formation in North Dakota. Senate Bill 2397, signed and placed into law by Governor John Hoeven, effective July 1, 2007, created subsection (9) in North Dakota Century Code (N.D.C.C.) § 57-51.1-03 as follows:

The first seventy-five thousand barrels of oil produced during the first eighteen months after completion, from a horizontal well drilled and completed in the Bakken formation after June 30, 2007, and before July 1, 2008, is subject to a reduced tax rate of two percent of the gross value at the well of the oil extracted under this chapter. A well eligible for a reduced tax rate under this subsection is eligible for the exemption for horizontal wells under subsection 3, if the exemption under subsection 3 is effective during all or part of the first twenty-four months after completion.

Subsections (1) and (2) of North Dakota Administrative Code (N.D.C.C.) § 81-09-03-02, promulgated by the Tax Commissioner in relation to N.D.C.C. ch. 57-51.1, contains the following definitions of “drilled” and “completed”:

"Completion" or "completed" means an oil well will be considered completed when the first oil is produced through wellhead equipment after production casing has been run.

"Drilled" means the spudding of a well.

To qualify for the 18 month/1st 75,000 barrel 2% extraction tax rate on production from the Bakken formation, a well has to have been drilled (spudded) after June 30, 2007 and completed as a horizontal well in the Bakken formation before July 1, 2008. The incentive will apply only to production from the Bakken formation, with one incentive allowed per well.

The Office of State Tax Commissioner will be issuing a ***“Horizontal Bakken New Well Determination”*** letter based on the spud and completion dates filed by a well operator with the Department of Minerals Resource, Oil and Gas Division of the North Dakota Industrial Commission (N.D.I.C.). You will need to contact the N.D.I.C. to discuss the requirements of their reporting forms. The N.D.I.C. may be reached at 701.328.8020.

A complete listing of links to the North Dakota Century and Administrative codes relating to taxation are located on our web site at <http://www.nd.gov/tax/centurycode/>. If you have any questions, please contact the Oil and Gas Tax Section at 701.328.2705 or by email at oiltax@nd.gov.